

# Alternative Financing for Real Estate Developments, & Cytonn Weekly #06/2022

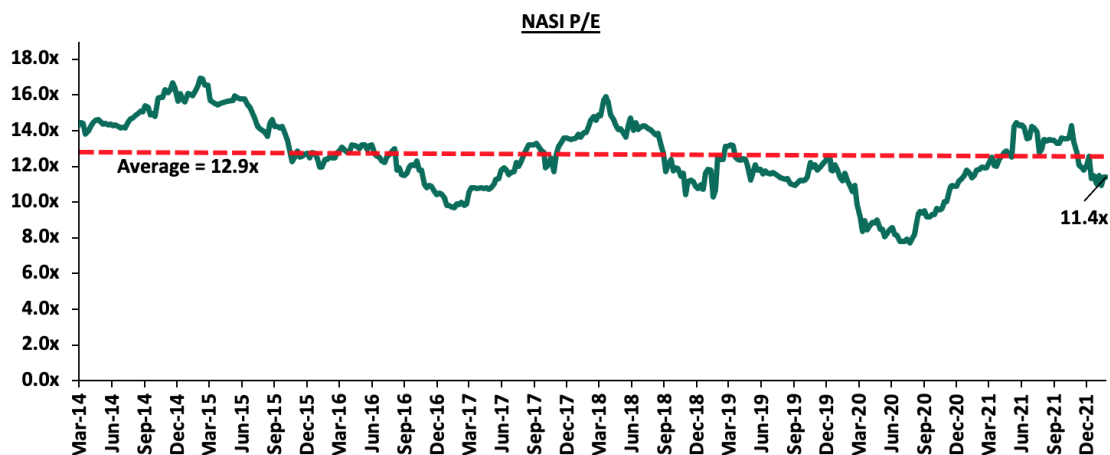
## Equities

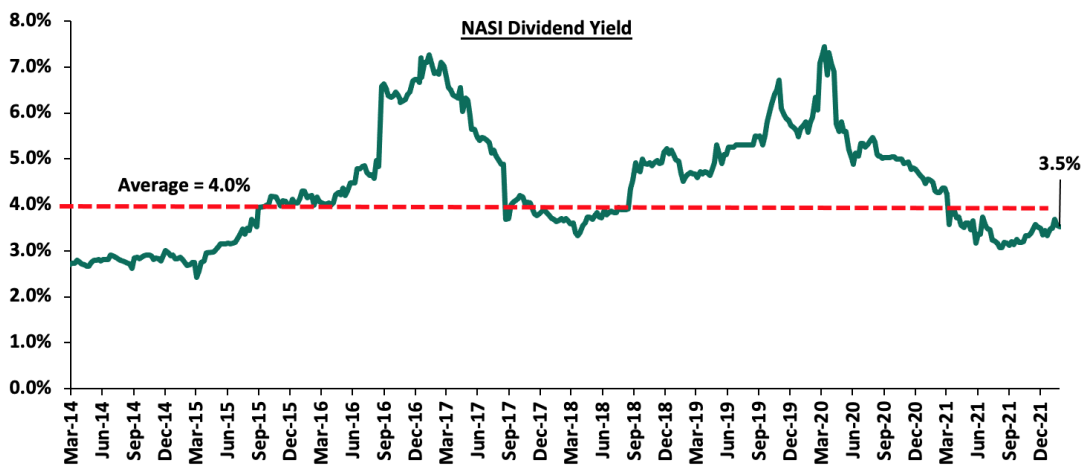
### Markets Performance

During the week, the equities market recorded mixed performance, with NASI gaining by 0.6%, while NSE 20 declined by 0.2%. NSE 25, on the other hand, remained unchanged. This week's performance took the YTD performance to gains of 0.5% and 0.1%, respectively, for NASI and NSE 25, while NSE 20 recorded a loss of 0.9%. The equities market performance was driven by gains recorded by large cap stocks such as Safaricom, Standard Chartered Bank Kenya (SCBK) and Equity of 1.3%, 1.1% and 0.5%, respectively. The gains were however weighed down by losses recorded by stocks such as KCB, Diamond Trust Bank (DTB-K), ABSA and EABL which declined by 3.6%, 2.9%, 2.1% and 2.0%, respectively.

During the week, equities turnover declined by 16.7% to USD 23.1 mn, from USD 27.7 mn recorded the previous week, taking the YTD turnover to USD 118.3 mn. Foreign investors remained net buyers, with a net buying position of USD 2.5 mn, from a net buying position of USD 4.6 mn recorded the previous week, taking the YTD net buying position to USD 1.8 mn.

The market is currently trading at a price to earnings ratio (P/E) of 11.4x, 11.6% below the historical average of 12.9x, and a dividend yield of 3.5%, 0.5% points below the historical average of 4.0%. Key to note, NASI's PEG ratio currently stands at 1.5x, an indication that the market is trading at a premium to its future earnings growth. Basically, a PEG ratio greater than 1.0x indicates the market may be overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued. The current P/E valuation of 11.4x is 48.3% above the most recent trough valuation of 7.7x experienced in the first week of August 2020. The charts below indicate the historical P/E and dividend yields of the market.





## Weekly Highlight

### Moody's Kenyan Banking Sector Rating

During the week, Moody's Rating Agency gave a stable rating to the Kenyan banking sector following the banks' impressive performance in the eleven months to November 2021, with the profits before tax coming in at Kshs 178.8 bn, higher than the pre-pandemic earnings of Kshs 150.1 bn over the same period in 2019. Additionally, the agency noted that non-performing loans (NPL) will decline in the next 12 to 18 months. Earnings, on the other hand will continue improving in tandem with the economic recovery. The gradual economic recovery is also expected to support banks in improving their loan quality and profitability, while capital, funding, and liquidity will remain strong, in line with our Q3'2021 Banking Sector report. However, we note that despite the improvement seen in the Asset Quality for the listed banks in Q3'2021, with the gross NPL ratio declining by 0.4% points to 12.0%, from 12.4% in Q3'2020, the NPL ratio for the banking sector remains higher than the 10-year average of 8.1% coming in at 13.9% as of August 2021. We also anticipate a decline in loan growth in 2022 as banks reduce lending to the private sector in response to the uncertainties surrounding the August elections. This is in turn expected to have a trickle-down effect on interest income from loans and advances. Additionally, we believe that, in the medium term, banks will continue to overprovision, albeit at a lower level than in 2020, due to the uncertainty brought about by the emergence of new COVID-19 variants.

### Universe of coverage:

Company	Price as at 04/02/2022	Price as at 11/02/2022	w/w change	YTD Change	Year Open 2022	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Reinsurance	2.2	2.3	1.4%	(1.7%)	2.3	3.3	8.9%	56.3%	0.2x	Buy
Jubilee Holdings	300.0	299.0	(0.3%)	(5.6%)	316.8	371.5	3.0%	27.2%	0.5x	Buy
I&M Group***	21.1	21.5	1.9%	0.2%	21.4	24.4	10.5%	24.1%	0.6x	Buy
Britam	7.1	7.2	2.0%	(4.8%)	7.6	8.3	0.0%	15.9%	1.2x	Accumulate
KCB Group***	47.0	45.3	(3.6%)	(0.5%)	45.6	51.4	2.2%	15.6%	0.9x	Accumulate
Liberty Holdings	6.9	7.0	1.4%	(0.8%)	7.1	7.8	0.0%	11.1%	0.5x	Accumulate
NCBA***	25.8	25.3	(1.9%)	(0.8%)	25.5	26.4	5.9%	10.4%	0.6x	Accumulate
Sanlam	9.7	11.0	12.9%	(4.8%)	11.6	12.1	0.0%	10.1%	1.2x	Accumulate
Co-op Bank***	13.0	13.0	(0.4%)	(0.4%)	13.0	13.1	7.7%	8.6%	1.0x	Hold
Standard Chartered***	136.0	137.5	1.1%	5.8%	130.0	137.7	7.6%	7.8%	1.1x	Hold
Equity Group***	53.0	53.3	0.5%	0.9%	52.8	56.6	0.0%	6.3%	1.4x	Hold
Diamond Trust Bank***	60.0	58.3	(2.9%)	(2.1%)	59.5	61.8	0.0%	6.0%	0.3x	Hold
Stanbic Holdings	87.3	94.0	7.7%	8.0%	87.0	94.7	4.0%	4.8%	0.8x	Lighten
ABSA Bank***	11.9	11.7	(2.1%)	(0.9%)	11.8	11.9	0.0%	2.2%	1.2x	Lighten

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CIC Group	2.3	2.2	(2.7%)	0.9%	2.2	2.0	0.0%	(6.7%)	0.8x	Sell
HF Group	3.6	3.7	1.7%	(3.9%)	3.8	3.0	0.0%	(19.1%)	0.2x	Sell

\*Target Price as per Cytonn Analyst estimates

\*\*Upside/ (Downside) is adjusted for Dividend Yield

\*\*\*For Disclosure, these are stocks in which Cytonn and/or its affiliates are invested in

*We are “Neutral” on the equities markets in the short term. With the market currently trading at a premium to its future growth (PEG Ratio at 1.5x), we believe that investors should reposition towards value stocks, with strong earnings growth, that are trading at discounts to their intrinsic value. We expect the discovery of any new COVID-19 variants, the upcoming Kenyan general elections and the slow vaccine rollout to continue weighing down the economic outlook. On the upside, we believe that the relaxation of lockdown measures in the country will lead to improved investor sentiments in the economy.*

Liason House, StateHouse Avenue

The Chancery, Valley Road

www.cytonn.com

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